

# **A REVIEW OF CBFM ENTERPRISE DEVELOPMENT**

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**Natural Resources Management Program**

## PREFACE

As Dr. Blaxall indicates in her introduction to this review, the many new business ventures planned and begun by forest communities are limited in their potential success by inadequate access to investment capital. Development specialists are familiar with this all-too-common constraint of small businesses that does not respect the distinction between developed and developing economies. CBFM's resource managers are as Dr. Blaxall remarks "by definition" communities with very low per capita incomes and a very poor knowledge and skills base by the standards of the modern urban economy. As borrowers and investment partners they present an extremely high risk profile to any lender or potential corporate partner. The value they bring to the table in building their new businesses is control of valued natural resources (forest lands and forest products) through the lease instruments issued by the Department of Environment and Natural Resources (DENR). These Community-Based Forest Management Agreements represent the single most powerful opportunity available to the Philippine Government and the DENR in their effort to stimulate economic development with equity in the nation's uplands. That this exciting and effective economic development strategy also enlists the active daily support of local uplands residents in successfully protecting and rebuilding the nation's forest cover is icing on the cake.

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## ACRONYMS

CADC	-	Certificate of Ancestral Domain Claim
CBFM	-	Community-Based Forest Management
CBFMA	-	Community-Based Forest Management Agreement
CDA	-	Cooperative Development Authority
CPA	-	Certified Public Accountants
DA	-	Department of Agriculture
DAI	-	Development Alternatives, Inc.
DAR	-	Department of Agrarian Reforms
DBP	-	Development Bank of the Philippines
DENR	-	Department of Environment and Natural Resources
DILG	-	Department of Interior and Local Government
DOST	-	Department of Science and Technology
DTI	-	Department of Trade and Industries
FRM	-	Forest Resources Management
LGU	-	Local Government Unit
NGO	-	Non-Governmental Organization
NRMP-II	-	Natural Resources Management Program, Phase II
PICPA	-	Philippine Institute of Certified Public Accountants
PNB	-	Philippine National Bank
PNB	-	Philippine National Bank
PO	-	People's Organization
TESDA	-	Technical Education and Skills Development Authority
UCPB-CIIF	-	United Coconut Planters Bank Foundation
UNDP	-	United Nations Development Program
USAID	-	United States Agency for International Development
WWF	-	World Wildlife Fund

# A REVIEW OF CBFM ENTERPRISE DEVELOPMENT

by

Martha O. Blaxall

## INTRODUCTION

### BACKGROUND

A key objective of the Forest Resources Management Project (FRM) has been the development of a sound, community-based, forest management system with a local population committed to ensuring sustainable, well managed forest lands. One element of the ingeniousness of the design and implementation of the Project, has been its explicit recognition of, and resource support to, the enterprise development component, thereby embracing a strategy that gives community members a direct stake in ensuring sustainable resource management of the forests. FRM has assisted local community groups establish and operate business ventures as part of their forest resource stewardship responsibility, and has helped these groups recognize that the success of their businesses is inextricably intertwined with their sustainable management of these resources. This has led to a measurable reduction in the volume of illegal logging in these areas compared to forest lands that still have “open access.”<sup>1</sup>

Thus, FRM has not only achieved its original objectives, but it has also taken a significant, initial step towards rural poverty alleviation among some of the poorest communities in the Philippines. In this way, it has made an important contribution towards the major objectives of the Estrada government’s economic program, which advocates a pro-poor, market-friendly approach to alleviating poverty, modernizing the agricultural sector, and developing infrastructure, particularly in rural areas.<sup>2</sup>

Recognizing the importance of successful enterprises in ensuring the sustainability of effective forest management, FRM has undertaken a special review of this component. The review begins with a focus on the People’s Organizations (PO) success – and failure – in overcoming one of their most significant impediments to enterprise development, lack of access to capital. This includes both equity capital to finance the start up costs of new enterprises, as well as working capital to finance the day-to-day cash needs of a functioning business.

The poverty level of most of the communities engaged in community-based forest management activities (CBFMA), and their relative inexperience in finance and business, has constrained many PO efforts to obtain credit at affordable rates. This has forced them to rely on traditional sources, and in particular, the local buyer/trader, or “five/sixer,”<sup>3</sup> who will advance the money needed to buy inputs for agro-forestry activities at interest rates that often exceed 30 to 40 percent on a crop season basis. In

<sup>1</sup> Assessment of the Community-Based Forest Management Strategy and Program, January 1999.

<sup>2</sup> These objectives were outlined in the draft of the Administration’s Medium-Term Philippine Development Plan (MTPDP) for 1999-2004, as reported in “Estrada gov’t development blueprint completed,” *The Philippine Star*, May 9, 1999, p. 22.

<sup>3</sup> “Five/sixer” are local money lenders charging interest rates of 5 to 6 percent per month.

other cases, the planned venture is simply postponed until funds can be generated internally through ongoing business activities. Only in rare instances has the lack of access to credit not been a barrier to PO enterprise development.

The principal purpose of this review has been to research the actual experience of People's Organizations in accessing capital, whether it be from internal resources, outside partners, government grants, or bank loans, etc., and to document what factors have contributed to the success and failure of PO efforts to obtain this capital. Based on this analysis, recommendations have been developed for enhancing PO access to reasonably priced sources of capital. These issues are discussed on the next section.

A second part of the review has examined other barriers to enterprise development and growth that People's Organizations are confronting. These include the need for technical assistance and training in business management and marketing, and applied training in the technical aspects of their business ventures, whether it be growing coffee, cutting timber, making furniture, or a variety of other activities.

Access to credit and effective technical support are not enough, however, to ensure the sustainability of CBFM. Infrastructure improvements that allow easier access of upland dwellers to local and regional markets (farm-to-market roads, for example), flood control measures that prevent bridges from being washed out from unusually heavy rains, and better telecommunications linkages between upland farmers and sources of market information, are just some of the investments in infrastructure that are needed to improve the economic status of CBFM communities. Similarly, efforts are needed to attract capital into these areas from outside sources. This includes generating access to off farm employment for community members to increase remittances of outside remittances. It also includes creation of a policy environment that is conducive to attracting outside capital, from both foreign and domestic sources. This requires a holistic approach to PO enterprise support and a much more predictable, stable policy regime towards timber-based enterprises than has been the case so far.

What is clear from this review, is that the community-based forest management program's ongoing contribution to alleviating rural poverty will not be fully realized if enterprise development assistance is implemented as a series of discrete activities offered by a variety of different programs and agencies. What is needed is a holistic, coordinated approach to achieving economic development in these communities, an approach that effectively exploits the opportunities available from transforming the "in kind" forest resource wealth they are authorized to access, into sustainable livelihoods for the entire community. This is an achievable outcome for many, if not most POs, all of which are motivated to succeed. The challenge lies in the commitment of the Philippine Government – at the national, provincial and municipal levels – to make it work. Within this context, one of the challenges for DENR is to assume a leadership position to rally necessary assistance from other national government agencies, to enter into effective partnerships with LGU officials, and to foster a positive investment climate that will attract private capital into the areas.

## **REVIEW METHODOLOGY**

Site visits to four People's Organizations were made with FRM staff members from Regions 2, 10, 11 and 13. Additional leaders from six POs were interviewed in meetings held in Tuguegarao, Prosperidad, Butuan, and Davao City. Each PO leader was queried about his/her organization's current enterprise activities, and their principal barriers to further growth and development. Where



access to capital, either for start up costs or for ongoing working capital, was identified as a barrier, further questions were asked about specific attempts to borrow money from formal and informal lending sources.<sup>4</sup> Questions were also asked about other impediments, including the need for technical assistance in business management, market development and the technical aspects of carrying out their enterprise activities. POs were asked whether and how their relationships with DENR and their respective LGUs were supportive of their business activities. Finally, they were requested to document the benefits of these businesses to the economic status of their communities.

Six potential sources of credit were investigated in depth in carrying out this assignment. These included two private banks, Philippine National Bank (PNB) and Network Bank in Mindanao, one private foundation, the United Coconut Planters Bank Foundation (UCPB-CIIF), and three government-funded credit programs, Land Bank, the Development Bank of the Philippines (DPB), and the Department of Agriculture Lending Program known as Quedancor. Fourteen individual lending officers were interviewed in different locations throughout the country: three at Land Bank, four at DBP, two at PNB and UCPB-CIIF, and one each at Quedancor and Network Bank. A variety of other public and private programs were identified as “potential” sources of funds for POs seeking credit for their business activities. Interviews were also conducted with representatives from a variety of technical assistance suppliers, including donor-funded projects, and agro-forestry, wood and wood product buyers. Finally, several LGU officials, including two provincial Governors, one municipal mayor, two barangay captains and other local officials, were interviewed to explore how LGUs can assist the enterprise efforts of the POs.

#### Sources of Information

- Interviews with leaders of 10 POs from Regions 2, 10, 11, and 13
- FRM staff Reports and information on PO enterprise activities
- Interviews with 14 officials from six lending institutions
- Interviews with private and public assisting organizations, commercial buyers, and officials from DENR, DA, DTI, and LGUs.

Data collected through interviews were augmented with information supplied by NRMP-II staff and other reports prepared by staff members and consultants employed by the NRMP-II project.<sup>5</sup>

<sup>4</sup> The questionnaire guide used in interviewing PO leaders is contained in Annex 2.

<sup>5</sup> A partial list of individuals interviewed for this report is contained in Annex 1.

## **PO ACCESS TO CREDIT**

Lack of access to affordable credit remains a significant impediment to enterprise growth and development for most POs participating in the CBFM program. Even programs from supportive lenders, like Land Bank, embody major barriers for the vast majority of People's Organizations. Just the paper work, alone, deters many POs, and relegates them to dealing with the local traders who charge five to 10 percent per month, compared to Land Bank's one percent rate. Even where the PO has a competent staff that can produce up-to-date financial statements, preparing a sound business plan that will convince the bankers to support their enterprise is often impossible to do. And even where the paperwork barriers can be overcome, lack of hard collateral often precludes POs from obtaining credit approval; the risks are simply too great for the commercial lending institutions to bear. Creative ways to leverage LGU funds as collateral for specialized, PO-directed funds are certain to evolve during the next couple of years to obviate this particular barrier. To address the others, more and better information about sources of funds, and help in accessing them, are clearly needed.

### **ACCESS TO CREDIT THE PRINCIPAL PO PROBLEM AREA**

All but two of the PO leaders interviewed listed access to credit or some other type of financial support as their number one problem area. Several POs indicated that lack of financial resources had forced them to postpone starting new ventures, including businesses that would allow them to diversify away from a dependence on timber operations. In some cases, POs had actually attempted to borrow money at local institutions and had been turned down. In other cases, POs had not bothered to apply, concluding that their lack of collateral and borrowing history would disqualify them from succeeding. In most cases, POs satisfied their working capital needs with cash advances from local traders who are prepared to lend for seeds and other inputs at rates that range between 30 and 40 percent per crop season. These traders require no paperwork and make it easy to borrow, even though their interest rates far exceed those charged by other lending institutions.

The two POs that ranked financial barriers as a secondary problem were both engaged in successful timber operations, and had generated a surplus from those businesses that had allowed them to internally finance their expansion into other businesses. In both cases, however, the POs indicated that the suspension of new harvesting or processing permits in CBFM areas imposed by the Secretary of DENR on September 22, 1998 was beginning to take its toll. As existing permits expired and timber revenues ceased to flow in, one of these cooperatives had begun considering major layoffs of its employees. It intended to hold off as long as it could to avoid the significant loss of income that would occur, since no other sources of employment were available in the area.

### **LENDING OFFICERS' AWARENESS OF CBFM AND PO ACTIVITIES**

One question of interest was the extent to which the banking sector in Regions with significant CBFM activity was aware of the program and familiar with the credit needs of People's Organizations. Of the 14 lenders interviewed, only nine were aware of the program, of which only four were very familiar with it. Five lenders had not previously heard about the program prior to meeting with us. Surprisingly, only two-thirds of the public sector bankers interviewed were aware of the Program, and

only three, two at Land Bank and the Quedancor representative, were very familiar with CBFM. Table 1 shows the extent of lending officers' awareness.

**Table 1**  
**Lending Officers' Awareness of CBFM and PO Activities**

<u>Type of Institution</u>	<u>Very Familiar</u>	<u>Aware</u>	<u>Not Aware</u>	<u>Total</u>
Public	3	3	3	9
Private	1	2	2	5
Total	4	5	5	14

Among those who were familiar with CBFM and the POs role in it, two had learned about them through inquiries or loan requests from People's Organizations, three had become aware through FRM-sponsored Providers' Workshops or staff contacts, and the rest had learned about it from CDA, LGUs or NGOs. This suggests that one goal of the PO Federation should be an effectiveness awareness campaign with the lending sector.

## **PO SOURCES OF FINANCIAL ASSISTANCE AND CREDIT**

A similar lack of familiarity with the full range of credit services available in the community and the requirements for accessing them, was seen in the interviews with many of the POs and in a review of their experience in the targeted regions. Of approximately 31 POs studied, fourteen had not attempted to seek any outside sources of funds. This was partly due to the relatively young age of the POs, but in two cases the PO had been able to generate the necessary capital internally. Among the remaining POs, there were six rejections reported from the banking sector, and twenty-three successful efforts from a multiplicity of sources. One request is still pending. (Note that several POs raised funds from more than one source). Table 2 summarizes the POs' experience.

Only one PO reported a successful experience with the banking community, in this case an unsecured production loan from Land Bank in the Ilagan area. Subsequent borrowings by this PO were not successful, however, in that the El Nino drought caused crop failures that prevented PO members from repaying their loans to the cooperative, which was then forced to restructure the loans with Land Bank. Many PO members moved on to other ventures, and the PO has been trying to pay off the outstanding balance of the loan through its own operating funds. Land Bank has continued to work with this PO, but has clearly stated that any future loans with it will need to be fully collateralized.

All other PO attempts to borrow from the commercial lending sector were entirely unsuccessful. PNB and Network Bank applicants could meet none of the Banks' collateral or business operations requirements. And even one group of Land Bank officials was unfamiliar with CBFMA and the People's Organizations implementing it.

**Table 2**  
**Reported PO Fundraising Efforts and Results**

Lender or Other Source of Funds	Number of Reported PO Requests	Number of Reported Rejections	Comments
Buyer/Trader Credits	7		Probably most POs used this method, although not all reported it.
LGU Credit	3		
Land Bank	3	2	1: PO applied for funds prior to establishing business track record. Is now considering reapplication. 2: DENR suspension of cutting undercut need for funds in 1998.
Rural or Network Bank	2	2	Did not meet lending criteria
Philippine National Bank	2	2	Did not meet lending criteria
NGO Credits	2		
Foreign Donor Credits	2		
DA Poverty Alleviation Fund	2		
DENR Livelihood Funds	2		
Congressional Guaranty Fund	2		
Dept. of Trade & Industry	1		
UNDP	1		Proposal under review
Total	29	6	

## **IMPEDIMENTS TO PO SUCCESS IN THE COMMERCIAL BANKING SECTOR**

Most People's Organizations have not yet gained the business savvy or the institutional experience that is needed to become clients of the traditional commercial lenders in the Philippines. Land Bank is the only major public institution that is prepared to provide start up businesses with uncollateralized production loans, assuming that its minimum eligibility criteria are satisfied. In general, Land Bank's basic borrowing requirements are reasonable, and most POs could satisfy them with adequate technical assistance. They are:

Cooperative Development Authority (CDA) certification as an operating cooperative;

At least 60 regular members if a start up and 100 members if an established cooperative;

Cooperative members contributing a minimum rate of ₱500 per year;

Cooperative leadership and management providing consistent oversight to PO activities, with a minimum of six Board meetings per year, and a complete core management team;

Written and fully operational policies on record-keeping, budgeting, membership, accounting, business operations, etc.; and

Updated financial statements for the previous two years for new cooperatives, and audited statements for the last three years for older cooperatives.

Land Bank's loan terms are reasonable, with interest rates currently at 12 percent plus a 2 percent servicing fee, and repayment terms consistent with the time frame in which the venture will return income to the borrowers. Up to six times the capitalized values of the cooperative's equity can be borrowed. And perhaps most importantly, Land Bank will work with its customers to restructure loans if weather or other factors affect anticipated cash returns. Land Bank will also provide technical assistance to prepare the loan documents and to service the loan.

By contrast, other lenders' requirements are much stricter, even for their most liberal programs. For example,

With the exception of Land Bank and Quedancor (the latter for rice or corn ventures only) all other lenders require hard collateral for production loans.

POs' leases, the right to cut standing timber, or inventories of cut lumber are not accepted as "hard" collateral.

Start up businesses (less than two or three years' of business experience) are perceived as unacceptable risks in most cases.

Two years of satisfactory financial statements and a good business plan are generally required. In most cases, audited financial statements must be provided.

In addition, specialized lenders have narrow definitions of borrower eligibility that disqualify most People's Organizations.

Network Bank in Mindanao is prepared to lend to People's Organizations only if they meet the specific requirements of its model for adding value to primary production. This model requires the PO to enter into a joint equity partnership with the Bank, or one of its associated Rural Banks, for the purpose of establishing a production facility, such as a rice mill, which will add value to the cooperatives' products being offered for sale. Farmers must agree to sell at least 70 percent of their total crop to this production facility.

UCPB-CIIF requires that 30 percent of the potential borrower's business activities be in coconut production. The cooperative must have 100 members (at least 50 percent of whom must be fully paid up). The borrower must be CDA certified, have been in operation for at least three years, and have a minimum capitalization of ₱250,000.

The USAID-funded micro-finance program known as MABS, is principally targeted at non-agricultural, small and micro-enterprises in rural communities. Since rural banks are typically dependent upon the agricultural sector, one objective of this program is to create new banking products that can appeal to the traders, small shop keepers, service providers and other non-agricultural businesses located in the rural towns. This may open some opportunities for PO members engaged in retail ventures, but it is not the solution to most POs' credit needs.

The major problem areas faced by People's Organizations seeking credit at traditional lending organizations, then, are the following:

Lack of hard collateral or other security;

Lack of experience and knowledge on how to prepare the paperwork for loan requests, including complete financial statements and well-conceived business plans;

Lenders' suspicions that POs' licensed timber operations are not a stable base of business, a risk factor that has been exacerbated by the Secretary of DENR's suspension order of September 22, 1998; and

A relatively short track record as operating enterprises and an even shorter time period as profitable businesses.

These four factors translate into an extremely high-risk profile for most PO borrowers who approach the traditional lending community. Time will ameliorate lenders' concerns about the POs' relatively short term business experience, but well-defined, targeted, actions will be needed to overcome lenders' fears of the other three factors.

## **INNOVATIVE FINANCING ARRANGEMENTS TO ASSIST PO BORROWING EFFORTS**

What is promising for People's Organizations in need of credit, is that most of the traditional lending community responds favorably to creative suggestions on how to reduce the risk associated with PO loans. These ideas offer ways to provide collateral for what would otherwise be unsecured PO loans. Land Bank appears to be the pioneer in this respect.

In an existing Land Bank program, 25 percent of the value of a loan can be collateralized with a deposit from a Congressional Development Fund, and five percent with the borrower's deposit. Land Bank will then require interest payments on only 70 percent of the loan, thereby reducing the effective borrowing cost for the PO. In another case, in Claveria, the Local Government Unit at the Municipality level has agreed to deposit ₱400,000 from its operating funds into the local Land Bank. The Bank will then use that fund to extend up to ₱2.4 million in loans to farmers in local operatives. Land Bank in Butuan indicated that it had considered LGU deposits as collateral for other types of cooperatives and would be willing to apply this policy to POs as well.

A consortium led by the Philippine office of the World Wildlife Fund (WWF) has agreed to finance a very creative approach for mobilizing a foreign donor's contribution to leverage loan funds for poor farmers in Sibuyan Island, Romblon. Partners in this venture include the three municipal governments of San Fernando, Cajidiocan and Magdiwang, and two local NGOs, MAGCAISA and the Evelio B. Javier Foundation. The environmental objective is "to conserve and to manage the rainforest of Mt. Guiting-Guiting through the development of sustainable enterprises."<sup>6</sup>

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<sup>6</sup> Lusito D. Uy, "The Livelihood Operational Plan, Protecting the Biodiversity of Mt. Guiting-guiting through the development of Sustainable Community Livelihood Enterprises (Sibuyan Island, Romblon, Philippines)," October 1997.

In this scheme, the WWF will contribute approximately \$500,000 to a “Whole Livelihood Fund.” Approximately 20 percent of this fund will be channeled to a Direct Loan Fund that will provide reasonably priced loans to local residents to develop or expand enterprises that sustain the region’s bio-diversity. A portion of the Direct Loan Fund will be used to guarantee a special fund in a local Rural Bank, which will provide loans to the poorest enterprises at about half the interest costs of the Direct Loan Fund. Thus, the Rural Bank should be able to attract customers who have traditionally been outside the formal banking system. This will include individuals whose only previous experience with borrowing money was with the traders who charge up to 10 percent per month, or whose financial condition precluded their borrowing the funds needed to start a micro or small enterprises. Priority will be given to loggers, members of indigenous cultural communities, vine gatherers and weavers, nito gatherers and weavers and seaweed gatherers. In general, organized groups will be favored over individuals, but individuals will not be excluded.

Other suggestions include setting up LGUs as potential business partners of POs through the establishment of a LGU-funded venture capital fund. This fund could enter into partnerships with local cooperatives, including POs engaged in CBFM. This kind of operation could potentially provide the PO with access to equity capital and working capital that might not otherwise be available, thereby generating future profits for the LGU to use in funding its own activities. More and more LGUs are interested in exploring creative ideas of this sort to help support enterprise development in their jurisdictions.

## **ADDITIONAL SOURCES OF FINANCIAL AID FOR POS**

LGU officials, lenders, and POs seeking financial support are aware of many other sources of loan capital and grant support. DENR should prepare an updated handbook of available sources of loans and grants that could be used by POs. Examples of other possible sources include the following: the donor funded Southern Mindanao Agricultural Bank, the Canada Fund for Local Initiatives, the Japan Grant Assistance for Grass Roots Projects, the UNDP Global Environmental Fund, the Mindanao Development Bank, the Visayas Central Fund, the Department of Agrarian Reform’s funds for POs located in agrarian reform communities, and IRA guarantee funds to LGUs for equipment purchases. Added to this are the Department of Agriculture’s funds for purchasing agricultural equipment, and scores of other ongoing or specialized, donor-supported efforts to assist marginal communities develop their agricultural and forest resources.

## **PO ACCESS TO TECHNICAL SUPPORT AND TRAINING**

Because People’s Organizations involved in CBFM are, by definition, located in rural areas with limited services and extremely low per capita incomes, PO members have learned, in general, to rely on their own resources for their livelihoods. As they have developed more experience in small enterprises, whether they be of an agricultural or timber-related nature, a retail store, or a lending cooperative, PO members have expanded their vision of what they can accomplish as businessmen and women, and have developed a better grasp of what their resource needs are likely to be in these business activities. They have learned to work effectively with the DENR and DAI advisors in the FRM

program, with other DENR and DA advisors, with NGOs and with other types of assisting organizations. They have also become familiar with a wide variety of grant and loan programs.

What is unmistakably clear from discussions with PO leaders, lenders and assisting organizations, is that POs will continue to need intensive, on-site technical support and training for the foreseeable future. Business and management skills are needed to assuage the concerns of lending organizations about the capacity of these organizations to manage credit lines, as well as to enhance the wisdom of business decision making and the subsequent returns to limited PO resources. Technical training is similarly needed to teach PO members necessary skills for dealing with new crops, such as coffee, and to enhance their current skills in dealing with timber. POs need opportunities to learn about ways in which they can add value to their existing product lines, and to improve the quality of what they already produce, in order to reap higher prices as they expand market outlets.

## **BUSINESS MANAGEMENT AND MARKET DEVELOPMENT ASSISTANCE**

In almost all cases, however, POs are still very much at the early learning stage of their business ventures. Every PO has articulated its need for frequent, reliable, on-site support by assisting organizations like DAI to help with business management, market growth, and skill development. These POs recognize that they are still feeling their way through the nuts and bolts of financial planning and management, cost accounting, cash management, business planning and the use of financial reviews to strengthen corporate governance and oversight. Even if they have good financial statements, they do not necessarily know how to translate those statements into a strategic business plan for the next five years, or even into an operational plan for the current year. They are only now beginning to understand the need for diversifying their product line, and they still rely on FRM advisors to help them understand their market opportunities and select enterprise options.

With the confidence POs are developing from their successes, and the feedback they get from on-the-job training and on-site technical assistance, sustainable behavioral change is occurring. The challenge is how to continue the multidisciplinary support that FRM has provided, in order to maintain the progress that has been made to date, and to provide the foundation for continued growth and development.

USAID intends to support a group of NGOs to continue this critical effort of nurturing POs through their early developmental stages. If tailored to the POs' real needs, rather than to pre-conceived ideas of their needs by NGOs with their own missions, this program could make an extremely valuable contribution. CDA runs a good introductory program for cooperatives that are seeking and/or have received their certification. DTI also has a wide variety of technical assistance and training programs that might be applicable, though DTI programs are frequently oriented towards a larger and more sophisticated enterprise. DENR runs leadership training programs. But there is more that needs to be done.

**DENR needs to establish itself as the focal point** for ensuring that a multidisciplinary set of technical support advisors is available to POs on an as needed basis. In this regard, DENR needs partnership arrangements at the regional and local level with DA, CDA, DTI and other national agencies to ensure their participation and support of relevant PO activities.



**LGUs need to adopt a stronger role in overcoming POs' barriers to success.** Perhaps LGUs could hire business enterprise specialists to assist POs in their local areas. LGUs need to become aware of POs' infrastructure needs and obtain and allocate resources to rectify inadequate infrastructure.

**DENR needs to explore the Involvement of the U.S. Peace Corps** in some of the regions that are not troubled by guerilla groups.

**The local business community needs to be encouraged to play a greater role, building upon the Filipino tradition of charitable assistance.** This might include the establishment of formal "big brother" arrangements with POs, or business internships and on-site training, possibly through the good auspices of organizations like the Chamber of Commerce.

The success that CDA-Davao City has had in mobilizing the accountants association, PICPA, to provide *pro bono* assistance to cooperatives needing help with their accounting and auditing activities illustrates the last point. CDA has worked with PICPA to establish a long list of CPA-certified personnel who will provide technical assistance and accounting services to these cooperatives on a *pro bono* basis. FRM staff members are now providing information about this program to all POs in the region.

## **TECHNICAL SUPPORT FOR ENTERPRISE ACTIVITIES**

Technical support for the actual business operations in which they are engaged is as essential for the POs as business and marketing advice.. That is why Nestle has included an intensive technical assistance component in its program directed at establishing coffee growing sites at a variety of CBFM sites in the country. DA, often with donor assistance, has cooperated with DENR to assist POs to produce seedlings for durian, pili nuts and cassui (cashews). Mango trees and coffee could be included. DA has also provided help on corn farming methods, seedlings for coconut trees, and basic information on cattle breeding, including procuring semen. CDA works with TESDA (Technical Education and Skills Development Authority) to direct technical assistance to its members to develop skills in managing and using farm equipment, for example. In Isabela, CDA and DENR are trying to launch a pilot project in reforestation. CDA is also trying to leverage its expertise through joint programs with LGUs.

The USAID-funded GEM program may be able to help expand the timber industry in Central Mindanao once the DENR suspension on new cutting permits is removed. A spokesman for that program indicated that the Governor of Misamis Oriental had asked GEM to help identify foreign investors who could partner with some of the larger POs in the region to develop expertise in wood products. Another role that GEM might play is to arrange for study tours within the Philippines for POs to observe enterprises that have learned how to be effective partners with foreign firms.

Industry support for transferring essential information and skills to PO enterprises (including internships, apprenticeships, training programs, workshops, etc.) should also be explored, with GEM and NGOs serving in a brokerage role. To insure that the POs value the training services, small fees should be imposed on all these activities.

DENR, the designated agency for CBFM, must take a leadership role, at least at the national level, since its stewardship responsibility for the forest places it squarely in the middle of all development activities in upland areas. DENR staff can provide invaluable assistance in helping the POs process the paperwork required by the agency to receive all of the necessary resource use and transport permits. DENR can also be helpful in the technical aspects of the timber and wood products business. But DENR staff does not have the specialized agricultural expertise that many POs now seek. Nor does DENR understand the intricacies of agricultural marketing and the mechanisms for transitioning to value added from primary products. These types of technical expertise will need to be provided through memoranda of agreement with DA, with specialized personnel from the University of the Philippines, and possibly in joint arrangements with LGUs, who will share with POs the financial cost of hiring technical specialists.

Finally, DENR cannot begin to provide the business and management specialists needed to complement the technical aid provided by the sector specialists. Thus, LGUs will also have to play a greater role in coordinating the various national government agencies that can provide help at the local or regional level, as well as organizing private sector assistance. Without this coordination, POs are not likely to receive the integrated type of assistance they need to survive and grow.

## **CBFM AT A CROSSROADS**

Community-based forest management has demonstrated its success as one of the resource strategies for achieving economic development in public lands. It has led to enterprise growth and poverty alleviation in some of the most marginal communities in the Philippines, while simultaneously ensuring sustainable management of the upland areas where CBFM has been put into place. More than two million people have been positively affected through the program to date.

CBFM is now at a crossroads for many of the People's Organizations who have committed themselves to work within its framework. DENR's commitment to the basic principles of CBFM is being seriously questioned due to the Secretary's order of September 22, 1998, which suspended new permits for cutting or processing timber in CBFM areas. Narrow policies of erratic implementation of CBFM, such as this suspension, affects the livelihoods of many PO members in the short term, and weakens their market opportunities in the long term, as buyers lose confidence in POs' ability to provide continuity of supply. Furthermore, inconsistent policies and implementation will deter the inflow of domestic and foreign investment capital into the upland areas, which can ultimately grow and prosper only with outside capital.

At the same time, the FRM program, the multidisciplinary technical support program to both DENR and many of the CBFM areas it has certified to date, is about to end. USAID has generously supported this effort for more than eight years, and continued USAID funding is likely to be directed towards a more grass roots, NGO-based effort. People's Organizations that have benefited from the broad approach offered through FRM are concerned about the effect of its ending on their future. What scenario for continued support should be encouraged to emerge?

## **A HOLISTIC APPROACH**

What is needed in the upland areas is a holistic, coordinated approach towards their future economic development and growth. As the Government agency with principal responsibility for ensuring the sustainability of the natural resources in the area, DENR needs to play a critical role. DENR needs to develop and enforce sound environmental laws and regulations, set the standards, ensure the quality control in timber operations, sustainable resource management and CBFM implementation, and coordinate the actions of other national government Departments on behalf of PO agro-forestry ventures. Other government agencies – and in particular, DA, DILG, Land Bank, DTI, DOST, DAR, CDA, etc., must provide their technical expertise to assist the POs. However, to carry out the implementation of the development strategy at the local level, DENR needs to enter into a working partnership with the LGUs.

LGU support is critical for the future health of PO business enterprises for several reasons. Not only are LGUs responsible for a comprehensive vision of their local areas' growth strategies, but they are the managers of increasing amounts of public funds that are being used for local infrastructure improvements assistance to the local business community. People's Organizations in the upland areas need to be viewed by the LGUs as part of that community – and in many instances they already are. The farm-to-market roads and the region's attractiveness to outside investors will ultimately be determined more by how the LGU allocates its resources than by national government programs. Certainly these programs, and the Donor assistance that contributes to their success, will be important. But local decision-making will make the difference, at the margin, to the success or failure of local economic development strategies. Thus, DENR's relationship with LGUs, at the local and regional level, is a critical factor in DENR's contribution to the long term health of CBFM and the People's Organizations responsible for its implementation.

## **A DENR PRIORITY**

DENR must examine each of the CBFM (and CADC) sites in its portfolio and, working with PO representatives, identify priority enterprise development actions that require a coordinated, multi-agency approach to be accomplished. These "community action plans" are not resource use plans of the type that DENR has traditionally required. Rather, they are a statement of the priorities that the PO needs to accomplish in order to move ahead with its enterprise development strategy.

Does it need access to credit for new equipment or working capital?

Does it need specific technical support on a particular business activity?

Does it need some in the cooperative to be trained elsewhere as a model for other workers in the community?

Is a site visit needed to observe a business model elsewhere in the country?

Must the LGU be lobbied to provide funds for a farm-to-market road that is impeding the PO's ability to reach a critical market place?

Is information needed from DTI on the market specifications for a particular horticultural product that the PO is considering moving into?

## **CONDITIONS FOR FUTURE SUCCESS**

It is clear that the success of PO's enterprise activities will depend upon their ability to access credit and investment capital for their business activities. It is also clear that access to credit and other types of capital depends upon the risk profile that the POs project when they approach lending organizations. Reducing the risk associated with lending to People's Organizations translates into reducing the risks these organizations face when they engage in business ventures.

A stable policy environment, competent technical support, adequate infrastructure, participation as part of the local business community, etc., are all important elements in a risk reduction strategy. That is why DENR leadership is so important, and why the participation of LGUs and, ultimately, the private sector, as partners with DENR and POs is the only way to ensure that PO enterprises will succeed. And only if these enterprises succeed, can DENR point with pride to its joint contribution to rural poverty alleviation and sustainable management of the Philippine's forest resources.